U.S. Representative John Campbell plans to offer legislation aimed at reducing the size of "too- big-to-fail" banks by requiring them to hold more capital including long-term debt.

Campbell, a California Republican, said he plans to introduce his bill today. It comes as a number of lawmakers and regulators from both parties -- including Federal Reserve Governor Daniel Tarullo -- argue that the 2010 Dodd-Frank Act failed to curb the growth of large banks and express support for renewed efforts to limit the kind of systemic risk that fueled the 2008 financial crisis.

Three of the four largest U.S. banks -- JPMorgan Chase & Co., Bank of America Corp. and Wells Fargo & Co. -- are bigger today than they were in 2007, heightening the risk of economic damage if one gets into trouble.

Banks typically fund their longer-term assets with short- term debt, making a profit on the interest-rate difference between the two. In a bank failure, stockholders are typically wiped out, and short-term debt can evaporate quickly as creditors refuse to renew commercial paper and short-term notes.

Campbell's bill would require banks with at least $50 billion in assets to hold an additional layer of capital in the form of subordinated long-term bonds totaling at least 15 percent of consolidated assets. If an institution were to fail, the long-term bondholders would be guaranteed at no more than 80 percent of the face value of the debt. As a result, banks would face pressure to reduce their balance sheets.

The extra layer of capital would be in addition to higher levels required as part of the Basel III international regulatory accords. The goal is to protect taxpayers from bailouts and equalize the competitiveness between large and small institutions, which face higher costs of capital, **Campbell** said.

Campbell also proposed using credit default swaps to help gauge when regulators should step in and assess a bank's riskiness.